

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

**THE ALAMEDA COUNTY SUPERINTENDENT
OF SCHOOLS NEEDS AN EMERGENCY LOAN
OF \$5 MILLION**

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

F-385

THE ALAMEDA COUNTY SUPERINTENDENT OF SCHOOLS
NEEDS AN EMERGENCY LOAN OF \$5 MILLION

FEBRUARY 1984



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February 9, 1984

F-385

Honorable Art Agnos, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the fiscal problems at the Alameda County Superintendent of Schools. We found that the superintendent's office will need approximately \$5 million to continue to provide services through the remainder of the fiscal year. The problems which led to this condition should be corrected if our recommendations are taken.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Tom W. Hayes", written over the printed name.

for THOMAS W. HAYES
Auditor General

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SUMMARY

The Alameda County Superintendent of Schools (ACSS) needs a loan of approximately \$5 million to continue operating its programs for the remainder of fiscal year 1983-84. Unless the ACSS receives an outside loan, its account will be \$5.0 to \$5.5 million overdrawn by June 30, 1984. The ACSS is in this position because of a number of poor management decisions that began in 1981 and that have continued to the present. These decisions involve the ACSS' undertaking a countywide program to transport handicapped students even though it did not have adequate funds and the ACSS' depleting its financial resources to acquire a new office building. The ACSS compounded its problems because it failed to follow its annual operating budgets and because it understated projected expenditures and overstated projected revenues in the fiscal year 1983-84 budget that it submitted to the State Department of Education and the Alameda County Board of Education.

As a result of the ACSS' current fiscal problems, the Alameda County Treasurer registered the warrants that the ACSS issued to its employees for the January 1984 payroll. Moreover, the program to transport nearly 3,000 handicapped students in Alameda County is in jeopardy.

Current Fiscal Problems

The ACSS ended fiscal year 1982-83 with a cash deficit of \$6.3 million. The Alameda County Treasurer (treasurer) notified the superintendent of his intent to register warrants unless the deficit was eliminated by December 31, 1983.

In September 1983, the treasurer advanced \$10.7 million to the ACSS with an understanding from the superintendent that the deficit would be eliminated. The superintendent tried to obtain an advance apportionment from the State Department of Education and to issue revenue

anticipation notes in an effort to reduce the cash deficit. When the superintendent was unsuccessful, the treasurer said that warrants would have to be registered. At that point, the superintendent sought legislation for an emergency loan.

We prepared a cash flow projection for the ACSS for the remainder of fiscal year 1983-84. The projection predicts that the ACSS will exhaust its funds in early February 1984 and be overdrawn by \$5.0 million by June 30, 1984. The actual amount of the loan that the ACSS will need may vary by \$500,000 depending upon whether the ACSS' actual revenues and expenditures are the same as the amounts we used in our projection.

Problems Related to the Special Education Transportation Program

The superintendent assumed responsibility for the special education transportation program without sufficiently considering some of the fiscal consequences of his actions. The ACSS undertook a program that would require a large amount of funds in the first year of its operations at a time when the ACSS had virtually no financial reserves. Further, when the ACSS' anticipated funding was cut and the ACSS began incurring serious cash deficits, ACSS management did not take action to resolve the fiscal problems. Instead, they continued to prepare budgets that would keep the ACSS' reserves low, and they continued to spend in excess of income and available resources.

Problems Resulting from the Acquisition of the New Office Building

The ACSS' acquisition of a new office building costing approximately \$10.2 million has also contributed to its current fiscal problems. The \$1.12 million annual lease payment for the new building is significantly higher than the \$190,000 rent that the ACSS paid at its

previous locations. In addition, the new building contains more space than the ACSS needs; the ACSS is attempting to lease the unused area. The ACSS' fiscal problems were further accentuated by change orders for the new building and additions to the original bids for furniture and equipment.

Budgetary Problems

Although the ACSS must present an initial annual budget to the Alameda County Board of Education and the State Department of Education, the ACSS is not accountable to any external entity for any changes that it makes to the initial budget. The ACSS makes significant changes to its initial budget throughout the year. Additionally, the ACSS compounds its fiscal problems by not effectively monitoring its budget and by not adhering to its budget. As a result, the ACSS generated only half the financial reserve that management had planned for 1981-82, and it incurred a deficit in fiscal year 1982-83. Moreover, the ACSS intentionally and significantly misstated its fiscal year 1983-84 budget.

Limitations of the Current Proposed Solution

After the ACSS had exhausted outside sources of financing in late 1983, it sought legislative assistance for an emergency loan. Assembly Bill 247 was amended in January 1984 to provide an emergency loan of up to \$5.368 million to the ACSS. The terms of the legislation require the ACSS to repay the loan, plus interest, in equal installments over five fiscal years starting in fiscal year 1984-85. However, the ACSS will not be able to repay this loan without seeking additional outside help. The ACSS' loan payments, including interest, could range from \$1.41 to \$1.66 million for the first full year, but the ACSS' projected revenues and expenditures show that the ACSS is incapable of repaying the loan. ACSS management said that the 18 school districts served under the countywide special education transportation program would have to assume the financial responsibility for repaying the loan.

A loan to the ACSS to cover its fiscal year 1983-84 cash deficit will not solve all of its financial difficulties even if the school districts assume responsibility for repaying that loan. We project that by June 30, 1985, the ACSS will have a \$1.6 million fund balance deficit unless it cuts expenditures significantly. Furthermore, the ACSS' financial problems will be exacerbated in fiscal year 1984-85 because the ACSS will feel the full effect of the lease payments for its new office building.

Recommendations

To assure that the fiscal problems of the Alameda County Superintendent of Schools are adequately addressed and that the problems do not recur, the Legislature should amend Assembly Bill 247. First, the maximum amount of the loan should be increased to \$5.5 million. While an emergency loan should solve the current problems facing the ACSS, significant budgetary reductions and tight fiscal controls are also needed. Therefore, as a condition of receiving the loan, the ACSS should be directed, among other things, to submit detailed annual budgets and monthly reports of operations to the State Department of Education.

In addition, the State Superintendent of Public Instruction should carefully monitor the operations of the ACSS. Finally, the legislation should also direct the Auditor General to review the ACSS' status of operations and report to the Legislature by September of each year until the loan is repaid.

INTRODUCTION

The Alameda County Superintendent of Schools (ACSS) operates in accordance with policies approved by the seven-member Alameda County Board of Education. The superintendent of schools and the board members are elected officials serving four-year terms. To assist him in carrying out the programs of the ACSS, the superintendent has established a management team consisting of an associate superintendent for educational services and an assistant superintendent for business services.

The ACSS operates development centers for handicapped minors and juvenile court schools, and it provides educational services to the 19 school districts within Alameda County and to other educational agencies. In addition, the ACSS operates a countywide transportation program for handicapped students, and it provides data processing services to school districts in Alameda and other counties. The ACSS also operates special education programs and such federal projects as the Elementary and Secondary Education Act program and the Comprehensive Employment Training Act program.

During fiscal year 1982-83, the ACSS incurred \$16,006,734 in expenditures and received \$14,711,454 in revenue.* The ACSS currently employs 245 staff, a reduction from the more than 400 staff employed in

*Unless otherwise noted, all references to years in this report are to fiscal years.

1981-82. The reduction occurred when the ACSS transferred a countywide special education program, which it had administered, to the school districts.

The Alameda County Treasurer's office acts as a banker for the ACSS, recording receipts and disbursements, issuing warrants, and investing any surplus funds on behalf of the ACSS. By action of the Alameda County Board of Supervisors, the ACSS has been exempt from review by the Alameda County Auditor-Controller since 1976.

Special Education Transportation Program

Before 1981-82, the ACSS provided transportation only for those special education students enrolled in classes that the ACSS conducted. The special education transportation program generally serves school age children who have severe mental or physical handicaps. These students cannot use traditional means of transportation. In 1981-82, after reaching agreement with participating county school districts, the ACSS assumed responsibility for providing a countywide special education transportation program. The impetus for the change from district to county administration was legislation (Chapter 797, Statutes of 1980) that provided 100 percent state funding for programs administered by county superintendents of schools, in contrast to the 80 percent state funding available for district-administered programs. Additional legislation (Chapter 1094, Statutes of 1981) required that any request

for a change from district to county administration must include evidence that the change will produce a net savings to the State or a 25 percent reduction in mileage. The ACSS was exempt from the requirements of this additional legislation because, according to the State Department of Education, the ACSS submitted its change plan three weeks before the legislation took effect.

The special education transportation program is funded retroactively by the State. Under this type of funding, the State reimburses a county in one year for expenditures that were incurred in the previous year. Thus, a county must have sufficient funds to operate the program for one year without reimbursement. The State's reimbursement limit equals 125 percent of the average statewide cost of transporting a special education student. The State disallows any costs that exceed this limit. In 1981-82, the ACSS' special education transportation program exceeded the statewide limit, and, as a result, the ACSS faced disallowed costs. (The State has not yet determined the 1982-83 reimbursement.)

In addition, the State did not fully reimburse the ACSS for all of its allowed costs. The ACSS was underreimbursed by 28 percent during 1981-82, and it expects to be underreimbursed again for allowed costs incurred in 1982-83. The underreimbursement of allowed costs represents the ACSS' share of the statewide reductions in funding made in the special education transportation program. The 18 school districts participating in the special education transportation program have

reimbursed the ACSS for the disallowed and underreimbursed amounts for 1981-82, and they have agreed to do the same for the disallowed and underreimbursed amounts anticipated for 1982-83.

Since it assumed responsibility for the special education transportation program, the ACSS has used three contractors to provide carrier services. Harbert Transportation Company has provided services in the southern portion of the county from the inception of the countywide program. Martinez Bus Lines, Inc., served the northern area of the county until May 1983. In May 1983, Russell Transportation, Inc., contracted with the ACSS to provide services through June 1984.

New Office Building

The ACSS currently occupies the new professional services center building, a 99,080 square-foot facility located in Hayward. The building was designed to consolidate the ACSS' operations into one central facility housing 284 employees. Construction began in May 1981 and was completed in December 1983. During the construction period, the number of employees to be housed in the building fell to 151. Consequently, the interior of the building was revised to make one wing available for lease.

The construction of the building was financed principally through bonds issued by the Alameda County Board of Education's Public Facilities Corporation. The Public Facilities Corporation is a

nonprofit, public benefit corporation that was formed to provide financial assistance to the Alameda County Board of Education. The Public Facilities Corporation issued \$9 million in bonds to finance the construction of the ACSS' new building. The bonds mature each April 1 in the years 1983 through 2003. The Public Facilities Corporation leases the building to the ACSS for an annual rent of \$1.12 million, which reflects the average yearly payment to the bondholders including interest. The lease expires on August 31, 2003, at which time ownership of the building will revert to the ACSS.

In addition to the bond financing, the ACSS provided \$3 million to pay for the cost of construction. Furthermore, the ACSS purchased the 7.5-acre building site for \$851,800 and has leased it to the Public Facilities Corporation for \$1.00.

SCOPE AND METHODOLOGY

The purpose of our audit was to measure the extent and determine the cause of the fiscal problems experienced by the Alameda County Superintendent of Schools. We did not evaluate the efficiency or effectiveness of the programs administered by the ACSS, nor did we assess the quality of the countywide special education transportation program.

We examined the audited financial statements of both the ACSS and the Public Facilities Corporation for fiscal years 1980-81, 1981-82,

and 1982-83. We compared the ACSS' budget to its actual expenditures for each year, and we reviewed the ACSS' budget preparation process. In addition, we examined the records of the Alameda County Treasurer to determine cash balances, and we reviewed the budget and financial reports that the ACSS submitted to the State. We also examined the bond prospectus used in financing the new building, the Public Facilities Corporation's articles of incorporation, and the minutes of the Alameda County Board of Education and the Public Facilities Corporation.

We reviewed the ACSS' sources of funds, including special transportation funds, and we reviewed the special education transportation program contracts with carriers and school districts. In addition, we examined the ACSS' acquisition of the new building and assessed the effect of this acquisition on the ACSS' current fiscal operations. We also assessed the ACSS' efforts to obtain additional financing and its efforts to lease out unused space in the new building.

We met with the president of the Alameda County Board of Education, the Alameda County Treasurer, and the Alameda County Auditor-Controller. We also interviewed ACSS staff, the architects who designed the new building, State Department of General Services space management staff, and commercial real estate agents knowledgeable of the Alameda County market.

Because the procedures cited above were not sufficient to constitute an examination made in accordance with generally accepted auditing standards, we do not express an opinion on any of the financial statements referred to in this report.

AUDIT RESULTS

I

BECAUSE OF FISCAL MANAGEMENT PROBLEMS, THE ALAMEDA COUNTY SUPERINTENDENT OF SCHOOLS NEEDS \$5 MILLION

The Alameda County Superintendent of Schools (ACSS) needs a loan of approximately \$5 million to continue operating its programs for the remainder of 1983-84. Unless the ACSS receives an outside loan, its account will be \$5.0 to \$5.5 million overdrawn by June 30, 1984. The ACSS is in this position because of a number of poor management decisions that began in 1981 and that have continued to the present. These decisions involve the ACSS' undertaking a countywide program to transport handicapped students even though it did not have adequate funds and the ACSS' depleting its financial resources to acquire a new office building. The ACSS compounded its problems because it failed to follow its annual operating budgets and because it understated projected expenditures and overstated projected revenues in its 1983-84 budget.

As a result of the ACSS' current fiscal problems, the Alameda County Treasurer registered the warrants that ACSS issued to its

employees for the January 1984 payroll.* Moreover, the program to transport nearly 3,000 handicapped students in Alameda County is in jeopardy.

In an attempt to solve this immediate problem, Assembly Bill 247 was amended in January 1984 to provide an emergency loan of \$5.368 million to the ACSS. As of the date of this report, Assembly Bill 247 was proceeding through the Legislature.

Current Fiscal Problem

The ACSS ended 1982-83 with a cash deficit of \$6.3 million. The Alameda County Treasurer (treasurer) notified the superintendent of his intent to register warrants if a funding plan for the deficit was not proposed by September 1, 1983, and in effect by December 31, 1983. The superintendent initially attempted to arrange for an advance apportionment from the State Department of Education for the 1983-84 special education transportation program. The superintendent proposed legislation for such an advance. However, he indicated that the State Department of Education was unable to provide the advance apportionment because it had already committed all of its funds for the year.

*A registered warrant is a form of check that can be redeemed only when sufficient funds are available. Registered warrants that counties issue earn 5 percent interest per year until they can be paid.

Having failed to secure the advance apportionment, the superintendent devised and submitted a funding plan to the treasurer. The plan provided for an advance from the treasurer of 85 percent of the ACSS' remaining anticipated revenue for 1983-84. This advance would be made in accordance with Section 42620 of the Education Code. To repay this advance, the superintendent planned to issue revenue anticipation notes. The treasurer agreed to the proposed funding plan with the understanding that the advance would be repaid by December 31, 1983.

In September 1983, the treasurer advanced \$10.7 million to the ACSS. As provided by the Education Code, the advance was to be repaid by transferring the first moneys received by the ACSS each month. Funds received from the sale of revenue anticipation notes were also to be applied against the advance.

Throughout the fall of 1983, the superintendent investigated the financial advisability and legality of the plan to issue revenue anticipation notes. The plan called for the notes to be "rolled over" into subsequent fiscal years because the ACSS would be unable to repay them all during 1983-84. Stone & Youngberg, financial advisers to the ACSS, believed that this "rollover" provision was not authorized by law. Given the legal restrictions, Stone & Youngberg concluded that the revenue anticipation notes may not be marketable.

When the proposed plan for funding the ACSS' deficit was not in operation by December 31, 1983, the treasurer notified the superintendent

of his intent to register any warrants that the ACSS issued after that date. The ACSS did not issue any warrants until the January 31, 1984, payroll. Those warrants were registered.

In addition to making it difficult for the ACSS to meet its payroll commitments, the ACSS' cash deficit may also affect its ability to provide transportation to Alameda County's handicapped school children. The two carriers providing service to nearly 3,000 handicapped students have not been paid since December 1983. Their monthly charges average approximately \$470,000. An official for one of the carriers told us that his company is unwilling to operate for long without payment. A representative of the other firm stated that his firm would have to seek outside financing if it is not paid.

Table 1 on the next page presents a cash flow projection of all anticipated cash revenues and expenditures of the ACSS for January through June 1984. We determined that the December 31, 1983, cash balance was \$1,010,330. (Appendix A describes the assumptions we used in preparing the cash flow projection.)

TABLE 1

ALAMEDA COUNTY SUPERINTENDENT OF SCHOOLS
CASH FLOW PROJECTION
JANUARY TO JUNE 1984

	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>
Cash balance, beginning of month	\$1,010,330	\$ 404,591	\$ (196,203)	\$(2,690,075)	\$(4,925,185)	\$(5,352,924)
Revenue						
Federal	33,456	349,656	89,773	89,773	84,086	84,087
State	830,510	1,354,446	681,016	681,017	717,929	681,017
Local*	862,564	516,138	87,871	830,673	102,871	852,873
Incoming transfers				332,725		
Total revenue and transfers	1,726,530	2,220,240	858,660	1,934,188	904,886	1,617,977
Expenditures						
Salaries and benefits	557,723	557,723	557,723	557,723	557,723	557,723
Instructional supplies	59,523	59,523	59,523	59,523	59,523	59,524
Services and operations**	701,531	807,433	779,861	981,519	697,146	594,578
Capital outlay	18,233	18,233	577,303	18,233	18,233	18,233
Outgoing transfers						77,500
Total expenditures and transfers	1,337,010	1,442,912	1,974,410	1,616,998	1,332,625	1,307,558
Retirement of advance	995,259	1,378,122	1,378,122	2,552,300	0	0
Total disbursements	2,332,269	2,821,034	3,352,532	4,169,298	1,332,625	1,307,558
Excess (deficiency) of revenues over disbursements	(605,739)	(600,794)	(2,493,872)	(2,235,110)	(427,739)	310,419
Cash balance, end of month	\$ 404,591	\$(196,203)	\$(2,690,075)	\$(4,925,185)	\$(5,352,924)	\$(5,042,505)

*The January and June amounts include \$750,000 each for billings to school districts for unfunded special education transportation costs for fiscal year 1982-83.

**The amount for June includes a \$268,000 reimbursement resulting from a contract renegotiation.

As the table shows, the cash flow projection predicts that the ACSS will exhaust its funds early in February 1984 and that it will have a deficit of approximately \$5.0 million at June 30, 1984. In order to end 1983-84 without a cash deficit, the ACSS will need a loan of between \$5.0 million and \$5.5 million. The actual amount of the loan may vary by \$500,000 depending upon whether the ACSS' actual revenues and expenditures are the same as the amounts we used in our projection.

Problems Related to
the Special Education
Transportation Program

The management of the ACSS assumed responsibility for the special education transportation program without sufficiently considering some of the fiscal consequences of their actions. The ACSS undertook a program that would require a large amount of funds in the first year of its operations at a time when the ACSS had virtually no financial reserves. Further, when the ACSS' anticipated funding was cut and the ACSS began incurring serious cash deficits, ACSS management did not take action to resolve the fiscal problems. Instead, they continued to prepare budgets that would keep the ACSS' reserves low, and they continued to spend in excess of income and available resources.

In the fall of 1980, the ACSS began negotiations with 18 of the 19 Alameda County school districts to commence a countywide special education transportation program for the 1981-82 school year. (Berkeley Unified School District elected to transport its own pupils.) The ACSS

intended to take advantage of the increased state reimbursement, available under legislation that had recently been enacted (Chapter 797, Statutes of 1980), for countywide special education transportation programs.

The State reimburses counties for costs associated with the special education transportation program in the fiscal year after the expenses are incurred. By taking over the transportation program from the districts, the ACSS committed itself to spending about \$4.3 million on the new program during 1981-82 even though it would not receive reimbursement until 1982-83. However, the ACSS had little financial reserves because, as will be discussed in the next section, in 1980-81 it made a \$3 million down-payment on the acquisition of a new office building. Therefore, the ACSS could not take on an operation the size of the special education transportation program without incurring significant cash deficits by the end of 1981-82.

ACSS management stated that they knew the ACSS would incur a large deficit in its first year of operating the special education transportation program and that they had intended to eliminate the deficit over the next few years by using the state capital outlay funds that the ACSS was to receive. This apportionment approximated \$2.9 million during 1980-81. The superintendent stated that he was not concerned that the ACSS would be operating with a negative cash balance until its deficit was paid off because the ACSS' accounting records, which had always been kept according to the accrual basis, did not

indicate a fund balance deficit. A fund balance deficit occurs when liabilities exceed assets. Under accrual-basis accounting, "receivables" are recorded as an asset at the end of one fiscal year for reimbursements expected in the next fiscal year. Thus, the one-year delay in receiving special education transportation program reimbursements did not cause a fund balance deficit to appear in the accounting records. However, a cash deficit would be recognized under any basis of accounting, and prudent fiscal management should be sensitive to both cash and fund balances in decision making.

ACSS management also said that they were not concerned about the potential of a significant cash deficit because the Alameda County Treasurer had never questioned the ACSS about its cash balance. Until 1983, the Alameda County Treasurer combined the cash account of the ACSS with those of Alameda County's 19 school districts in a pooled account. The ACSS expected that funds from the pooled account would be used to cover the ACSS' expenses until the State reimbursed the ACSS for the costs of the special education transportation program.

On June 28, 1981, Assembly Bill 777 (Chapter 100, Statutes of 1981) was enacted reducing state capital outlay funds. The ACSS' share of these funds was reduced by \$1.77 million. This legislation had a significant effect on the ACSS because the ACSS had anticipated using its capital outlay funds to eliminate the deficit produced by the special education transportation program and to make lease payments on the new building starting in 1983 and continuing through 2003. ACSS management

stated that they did not become aware of the reduction in capital outlay funds until the summer of 1981. By that time, they believed that they were too committed to the special education transportation program to withdraw.

We found no evidence that the ACSS management investigated the possibility of withdrawing from the countywide special education transportation program when they learned of the reduction in funding. On the contrary, following the passage of Assembly Bill 777, the ACSS signed agreements with school districts representing nearly 89 percent of the total countywide transportation services to handicapped students. Only three agreements, involving school districts representing approximately 11 percent of the total countywide operations, were signed prior to the enactment of the bill on June 28, 1981. All of the agreements stated that the ACSS would provide countywide services contingent upon its receiving special education transportation funding from the State. However, even though ACSS management also considered state capital outlay funding to be essential, the agreements did not include a provision allowing the ACSS to cancel services if these funds were reduced.

While the ACSS was negotiating with the school districts in the spring of 1981, the ACSS was also soliciting bids from carriers to transport the handicapped students. On July 1, 1981, three days after the Legislature reduced the funding that ACSS was relying on, the ACSS entered into an agreement with Harbert Transportation Company to transport pupils in the southern portion of the county beginning on

September 1, 1981. Furthermore, on September 1, 1981, the ACSS signed a contract with Martinez Bus Lines, Inc. to provide transportation services to the northern portion of the county. No children were actually served under the ACSS' countywide special education transportation program until September 1981.

Despite the ACSS' inadequate reserves and the loss of anticipated capital outlay funds, ACSS management did nothing to resolve the ACSS' fiscal crisis for nearly two years. One approach that ACSS management could have proposed was to have the 18 school districts cover the 1981-82 countywide expenses. The districts had operated their own special education transportation programs in 1980-81, and since the districts were being reimbursed in 1981-82 for the previous year's expenses, the districts were receiving income while not incurring any expense. Moreover, the ACSS could have reduced its own budget in response to the fiscal crisis. But as will be discussed in a later section (page 25), the ACSS overspent its budgets during 1981-82 and 1982-83.

Because ACSS management did not attempt to resolve the fiscal crisis, the ACSS ended 1981-82 with a significant cash deficit. The Alameda County Treasurer had noted that the ACSS had overdrawn its account, and he directed the ACSS to obtain a short-term loan to cover its expenses for the remainder of the fiscal year. After discussions with the ACSS, the Alameda County Treasurer concluded that \$1.8 million would be sufficient. However, the ACSS' actual cash deficit at

June 30, 1982, was \$3.48 million. Because the ACSS' account was part of the pooled account containing the accounts of the 19 school districts, the various school districts, in effect, provided the cash to pay for the ACSS' \$1.68 million overdraft that was not covered by the short-term loan.

In 1982-83, the ACSS increased its cash deficit from \$3.48 million at the beginning of the year to \$6.32 million at June 30, 1983, an increase of \$2.84 million. Although the special education transportation program had had its most significant effect on the ACSS during the preceding year, this program also accounted for \$1.9 million of the \$2.8 million increase in the cash deficit for 1982-83.

Three factors contributed to this \$1.9 million increase. Approximately \$1.3 million of this total resulted because the State did not reimburse all of the expenses that the ACSS incurred for the special education transportation program during 1981-82. The ACSS had negotiated agreements with the 18 school districts to pay whatever amount the State did not provide; however, the school districts did not provide the \$1.3 million by June 30, 1983. The second factor that increased the cash deficit was that the special education transportation program operated for 12 months in 1982-83, compared to 9 months in 1981-82. This longer period of service added approximately \$380,000 to the cash deficit. Finally, the ACSS also incurred approximately \$220,000 in interest expenses because it overdrew its account with the Alameda County Treasurer.

ACSS management has maintained that the sole cause of the ACSS' cash flow problem was the special education transportation program. Our review indicates, however, that only \$1.9 million of the \$2.8 million increase in the cash deficit can be attributed to the special education transportation program. The remaining \$900,000 of the deficit resulted from other operations of the ACSS.

We attempted to identify the causes of the \$900,000 increase in the cash deficit. We found that even though the ACSS was experiencing serious cash flow problems, the ACSS nevertheless paid vendors for costs relating to the construction of the new office building on behalf of the Public Facilities Corporation. The ACSS made these payments so that vendors would be paid more quickly. As of June 30, 1983, the ACSS had paid approximately \$326,000 for which it had not yet been reimbursed. Additionally, the ACSS did not bill various school districts promptly for data processing services. The ACSS usually billed school districts for these services twice a year, but during 1982-83, in the midst of its cash flow crisis, the ACSS did not bill the school districts until the end of the year. Consequently, the ACSS did not receive \$172,000 in data processing revenues until after June 30, 1983.

ACSS management stated that most of the remaining \$413,000 increase in the cash deficit resulted because the ACSS spent in excess of its income during 1982-83. The audited financial statements of the ACSS show that, on an accrual basis, the ACSS spent \$1.3 million more than it received during 1982-83, ending the year with a \$6.32 million cash

deficit and a \$339,000 deficit fund balance. This \$339,000 deficit fund balance could not be caused by the one-year lag in reimbursements for the special education transportation program because the lag between expense and reimbursement has a negative effect only on cash. Therefore, the deficit fund balance means that the ACSS spent in excess of its income and available reserves for operations other than the special education transportation program.

Problems Resulting from the Acquisition of the New Office Building

The ACSS' acquisition of a new office building costing approximately \$10.2 million has also contributed to its current fiscal problems*. The annual lease payments for the new building are significantly higher than the rent that the ACSS paid at its previous locations. In addition, the new building contains more space than the ACSS needs; the ACSS is attempting to lease the unused area. The ACSS' fiscal problems were further accentuated by change orders for the new building and additions to the original bids for furniture and equipment. As mentioned on page 20, the construction of the new building also contributed to the ACSS' cash flow problems because the ACSS paid vendors out of its own funds but was not immediately reimbursed by the Public Facilities Corporation.

*This total excludes the cost of land, furniture, and equipment.

To lease its new office building, the ACSS pays the Public Facilities Corporation an annual rent of approximately \$1.12 million. This amount significantly exceeds the \$190,000 that the ACSS reports it paid in total yearly rent for its previous locations. Before moving to its present location, the ACSS leased space at two locations in Hayward, one on Winton Avenue and the other on A Street. The ACSS also owned a facility on Ocie Way in Hayward.

The ACSS' new building contains more space than the ACSS needs. The building provides 99,080 square feet of space and was originally designed to house 284 ACSS employees. However, the ACSS transferred special education teachers to the school districts after the 1980-81 school year, and the number of ACSS employees to be housed in the new building was reduced to 151. ACSS reported that as of January 24, 1984, there were 150 ACSS employees working in the new building. Despite the revisions that provided the ACSS with leasable space, the ACSS still occupies approximately 485 square feet per employee. This total is more than twice the space per employee that the ACSS had at its previous sites. According to the ACSS' assistant superintendent, the difference in space allotment is attributed to large lobbies, a lounge, a board room, and elevators and stairwells, all of which the previous locations did not have.

As a result of the decrease in the number of employees, the ACSS had the interior of the new building revised to make one wing available for rent. According to the ACSS, the revision cost

approximately \$486,000 and produced about 17,500 square feet of leasable space. The ACSS has leased 3,690 square feet to a state project at \$1.10 per square foot per month. In addition, the ACSS has a lease agreement with a private firm, effective March 1, 1984, for 584 square feet at \$1.40 per square foot per month. The combined revenue from these lease agreements will be \$4,877 per month. If the ACSS can lease the approximately 13,230 square feet remaining at a proposed \$1.40 per square foot, the ACSS will collect additional revenue of about \$18,500 per month. In all, ACSS could collect about \$281,000 per year in lease payments.

In addition to the effect of the large lease payments, the ACSS added to its fiscal problems by exhausting a significant portion of the projected construction fund surplus that it had budgeted as revenue. The ACSS estimated that it would have a \$1.5 million surplus in the 1983-84 construction fund when the new building was completed. The ACSS intended to direct \$1 million of this surplus toward its 1983-84 operations. However, the ACSS continued to authorize change orders for the new building as well as additions to the original bids for furniture and equipment. The change orders totaled \$916,352; the additional furniture and equipment, \$96,799. As a result, most of the ACSS' estimated surplus disappeared: by January 1984, what had been projected to be a \$1.5 million construction fund surplus was reduced to \$332,000.

Budgetary Problems

Although the ACSS must present an initial annual budget to the Alameda County Board of Education and the State Department of Education, the ACSS is not accountable to any external entity for the changes that it makes to the initial budget. The ACSS makes significant changes to its initial budget throughout the year. Additionally, the ACSS compounds its fiscal problems by not effectively monitoring and adhering to its budget. As a result, the ACSS generated only half the financial reserve that management had planned for 1981-82, and it incurred a deficit in 1982-83. The ACSS also knowingly and significantly misstated its 1983-84 budget.

Education Code Section 1623 requires a county board of education to adopt the budget of a county superintendent of schools after holding a public hearing. Education Code Section 1621 requires a county board of education to file the approved budget with the Superintendent of Public Instruction (i.e., the State Department of Education). However, the Education Code does not require that a county board of education approve changes to the budget. Further, based on its interpretation of the Education Code, the State Department of Education is not required to approve budget changes.

To monitor the operations of the ACSS, the Alameda County Board of Education adopted a policy requiring the ACSS to provide quarterly status reports on its budget. However, the information that the ACSS

provides has not been sufficiently detailed for the board to effectively monitor the ACSS' budget. Moreover, the ACSS' assistant superintendent says that he monitors each program's budget status on a "bottom-line" basis only; he is not concerned if various line items within a program are overexpended as long as that program's total expenditures do not exceed the budgeted amount. However, this has not been an effective monitoring system since the ACSS overspent its budget in both 1981-82 and 1982-83.

In 1981-82, ACSS management prepared a budget that planned for a \$1.69 million increase in reserves. However, because the ACSS spent in excess of its budget and received less income than anticipated, the ACSS was only able to increase its reserve by \$875,000. In 1982-83, ACSS management prepared its budget based on a beginning reserve of \$1.70 million and budgeted ACSS' operations that would nearly deplete that reserve. However, after the initial budget was prepared, the ACSS' independent auditors determined that the beginning reserve was actually \$956,000. The assistant superintendent stated that management reduced budgeted expenditures to account for the change in the beginning reserve. However, the ACSS did not adhere to the revised budget, and it ended the year with a deficit fund balance of \$339,000.

Besides not preparing accurate initial budgets, the ACSS makes significant changes to its budgets without formally documenting these budget changes. However, because there is no official approval process, ACSS management do not always believe that it is necessary to revise a

program's or line item's budget if they believe that money is available in another program or line item to cover any overexpenditure. Certain changes to the initial budget have been necessary because the ACSS does not always have sufficient information to make realistic estimates when it prepares its initial budget. However, our review of the 1983-84 budget that the ACSS presented to the Alameda County Board of Education and the State Department of Education disclosed that the ACSS knowingly and significantly understated its budgeted expenditures and overstated its expected revenues.

For 1983-84, the superintendent instructed the ACSS staff to reduce the anticipated transportation expenses by \$2 million in order to present to the board a balanced budget that included a \$500,000 "Reserve for Contingencies." For that year, the manager of the special education transportation program budgeted \$6.2 million for transportation expenses. Although ACSS management said that they considered this estimate to be "fairly realistic," they believed that it would be easier to balance the budget by cutting transportation expenses by \$2 million than by making cuts in the various other programs. As a result, the ACSS presented the Alameda County Board of Education with a budget that significantly understated the projected expenses of the special education transportation program. Based on the ACSS' operations to date, the original estimate of \$6.2 million appears to have been reasonable; the ACSS now estimates that transportation expenses will be approximately \$5.77 million.

ACSS management also knowingly overstated by \$700,000 the amount of income that the State would provide the ACSS in 1983-84. In preparing the budget, management included as income an amount equal to the budgeted expenses of the special education transportation program for 1983-84, \$6.2 million. However, the State reimburses counties in one year for transportation expenses incurred in the previous year. Thus, for 1983-84, the ACSS could only expect reimbursements equal to its 1982-83 expenditures, \$5.5 million. By planning to spend money that it will not have, the ACSS has built a significant cash flow problem into its 1983-84 budget. ACSS management stated that they budgeted in this manner to present a balanced budget to the State Department of Education.

Limitations of the
Current Proposed Solution

After the ACSS had exhausted outside sources of financing in late 1983, it sought legislative assistance for an emergency loan. Assembly Bill 247 was amended in January 1984 to provide an emergency loan of up to \$5.368 million to the ACSS. The terms of the legislation require that the ACSS repay the loan, plus interest, in equal installments over five fiscal years starting in 1984-85. The interest rate is to be based on the most current investment rate of the State's Pooled Money Investment Account, which was earning 10.2 percent interest as of September 1983.

However, the ACSS will not be able to repay the loan without seeking additional outside help. If ACSS borrows between \$5.0 and

\$5.5 million, we calculate that the ACSS' loan payments, including interest, could range from \$1.41 to \$1.66 million for the first full year. The ACSS' projected revenues and expenditures show that the ACSS is incapable of repaying the loan. The superintendent and his fiscal staff agreed, and they said that the 18 school districts served by the countywide special education transportation program would have to assume the financial responsibility for repaying the loan plus interest. The superintendent said that if those school districts do not assume the responsibility, the ACSS will be forced to return the operation of the special education transportation program to the school districts. If this is done, the ACSS would no longer be operating the special education transportation program, and it would no longer incur transportation expenses. Consequently, the superintendent believes that the ACSS will have sufficient funds from its 1984-85 reimbursement for the 1983-84 transportation expenses to repay the entire loan in one year. The superintendent added, however, that because the school districts will face start-up costs and because the state reimbursement rate is lower for transportation programs that are operated by districts, the school districts will be reluctant to assume responsibility for operating the special education transportation program.

If the ACSS decides to cease operating the countywide transportation program, it must make its decision by April 1, 1984, because that is the date by which the ACSS must terminate its contract with one of the carriers. If the ACSS does not give notice of termination by that date, the contract must be continued for one year.

The superintendent said that he will decide whether to continue the program based upon commitments from the various school district superintendents that they will include payment of their share of the loan in the 1984-85 budgets that they submit to their respective school boards. However, since district school boards do not adopt their budgets until August, the superintendent does not believe that he can obtain a legal commitment from the various school boards by the April 1 deadline discussed above.

The ACSS' ability to repay the State's loan will be jeopardized if any of the 18 district school boards vote to exclude the loan payments from their budgets. Moreover, if any of the three largest school districts fail to assume a share of the loan payment, it will be difficult for the ACSS to continue operating. The school districts could potentially refuse to help repay the loan if they are not convinced that they share responsibility for ACSS' fiscal problems or if they are convinced that they could operate their own program more efficiently.

The ACSS Needs to Reduce Future Expenditures

A loan to the ACSS to cover its 1983-84 cash deficit will not solve all of its financial difficulties even if the school districts assume responsibility for repaying the loan. For 1984-85, we project that the ACSS will have revenues of approximately \$15.3 million and expenditures of approximately \$16.9 million. Therefore, by June 30, 1985, the ACSS will have a \$1.6 million deficit unless it cuts

expenditures significantly. In making this projection, we used the ACSS' 1983-84 budgeted expenditures and revenues, excluding the one-time revenues and expenditures that occurred in 1983-84.

The ACSS' financial problems will be exacerbated in 1984-85 because the ACSS will feel the full effect of the lease payments for the new office building. (The ACSS made its first payment on the new office building in 1983-84.) The lease payment for the new building is \$1.12 million per year, a significant increase over the \$190,000 that the ACSS reported spending on office space in 1982-83. The ACSS will be able to offset part of the rent increase in 1983-84 because the ACSS should have revenue equalling approximately \$782,000 from the sale of land and the transfer of some unexpended construction funds. However, the ACSS anticipates no other one-time sales or transfers, and the ACSS will need to cut expenditures by at least \$1.6 million to remain fiscally solvent during 1984-85 and subsequent fiscal years.

We reviewed the ACSS' expenditures for 1983-84 to identify areas where reductions could be made. We did not conduct this review to make recommendations but rather to determine the amount of flexibility in the ACSS' budget. Table 2 depicts the various items in the ACSS' budget and their relationship to total expenditures.

TABLE 2
ALAMEDA COUNTY SUPERINTENDENT OF SCHOOLS
BUDGETED EXPENDITURES
FISCAL YEAR 1983-84

<u>Item</u>	<u>Amount</u>	<u>Percent</u>
Contractual services	\$ 6,893,000	40%
Office/other leases	1,959,000	11
Certificated salaries (with benefits)	2,513,000	15
Classified salaries (with benefits)	4,492,000	26
Books and supplies	607,000	4
Other	<u>739,000</u>	<u>4</u>
Total	<u>\$17,203,000</u>	<u>100%</u>

Contractual services, the lease for the new office building, and other leases constitute about 51 percent of the ACSS' total expenditures, approximately \$8.9 million. Because of the fixed nature of these expenses, they are not easily reduced. Personnel costs, for both certificated (instructional) and classified (administrative) employees, make up most of the remainder, about \$7 million or 41 percent.

If the ACSS chooses to offset the \$1.6 million deficit by cutting personnel and other expenses, it will have to make a 21 percent reduction. However, certificated employees are under contract through June 1984, so any reduction in the number of certificated employees may require labor negotiations. Furthermore, because certificated employees teach in ACSS programs that generate state apportionment revenues, significant cuts from this category could reduce the ACSS' revenues. If

the ACSS decides to focus the budget reductions on classified salaries and other expenses, it will need to make a 31 percent cut to generate \$1.6 million in savings.

II

CONCLUSION AND RECOMMENDATIONS

The Alameda County Superintendent of Schools needs an emergency loan of approximately \$5 million to continue its programs through the remainder of the 1983-84 fiscal year. For the ACSS to repay this loan, local school districts will need to act to accept liability; if they do not, the ACSS may abandon the countywide special education transportation program. The ACSS' serious financial problems have resulted primarily from poor management decisions and inadequate fiscal restraint.

In 1981, ACSS undertook a countywide special education transportation program even though its financial reserves were insufficient and its anticipated revenues were reduced. Furthermore, once serious cash deficits were experienced, ACSS management did not take sufficient action to resolve the ACSS' fiscal problems. The superintendent has stated that he was not concerned about the cash deficit because the ACSS had anticipated revenues that, when collected, would cover the shortages. However, his lack of concern was ill-founded because the revenues the ACSS subsequently collected were inadequate to meet the ACSS' cash flow needs and to alleviate its fiscal problems.

In addition, the ACSS has assumed significant liability in acquiring a new office building. The ACSS' annual lease payment for the new building is \$1.12 million; the ACSS had previously paid \$190,000 for

office space. Moreover, because of staff reductions, the new office building provides much more space than the ACSS needs. Although the ACSS is subletting vacant space, lease revenues will provide only \$281,000 annually.

The financial problems in the operations of the ACSS were veiled by budget changes that the ACSS made after submitting its final budgets and by intentional understatement of expenditures and overstatement of revenues in the 1983-84 budget. Therefore, the agencies empowered to review the ACSS' budgets did not have accurate budget information from which to draw conclusions about the ACSS' financial position.

While an emergency loan should solve the current fiscal problems facing the Alameda County Superintendent of Schools, significant budgetary reductions and tight fiscal controls are needed to assure that a financial crisis does not occur again in the future.

Recommendations

To assure that the fiscal problems at the Alameda County Superintendent of Schools are adequately addressed and that the problems do not recur, the Legislature should amend Assembly Bill 247. First, the maximum amount of the loan should be increased to \$5.5 million.

In addition, as a condition of receiving the loan, the Alameda County Superintendent of Schools should be directed to do the following:

- Submit a detailed budget for its fiscal year 1984-85 operations to the State Department of Education by April 1, 1984; the ACSS should submit annual budgets by April 1 of each year until the loan is repaid. The budget should be prepared on both the cash basis and the accrual basis. The budget should demonstrate that revenues exceed expenditures under both bases.
- Submit the plan of operating reductions used in developing the budget, detailing specifically how personnel, building, and other costs will be affected.
- Provide monthly reports to the State Department of Education until the loan is repaid showing, by detailed line item, the ACSS' actual receipts and expenditures compared to the budgeted amounts. In no case should the ACSS deviate from the budget without the prior written consent of the State Department of Education.
- Provide evidence of a repayment plan to the State Department of Education before April 1, 1984; the ACSS should include copies of written agreements from Alameda County school districts assuming the liability for repaying the loan.

- Submit an analysis of the benefits of a countywide program for transporting the handicapped students. The ACSS should adhere to the criteria contained in Section 56774 of the Education Code and submit the analysis to the State Department of Education before April 1, 1984.

The legislation should also direct the State Superintendent of Public Instruction to do the following:

- Monitor, review, and approve or reject the reports and other materials that the ACSS submits during the period that the loan is outstanding.
- Sanction the ACSS by offsetting its state apportionment up to \$200 per day for each late or unacceptable report or other material and report to the Legislature any failure by the ACSS to meet the terms of this legislation.

Finally, the legislation should be amended to direct the Auditor General to report to the Legislature on the status of the operations at the Alameda County Superintendent of Schools and on the State Department of Education's monitoring and review of the ACSS. The Auditor General's first report should be issued by September 1984; subsequent reports should be issued by September of each year until the loan is repaid.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,

A handwritten signature in cursive script that reads "Thomas W. Hayes". The signature is written in dark ink and is positioned above a horizontal line.

THOMAS W. HAYES
Auditor General

Date:

Staff: Kurt R. Sjoberg, Chief Deputy Auditor General
Karen L. McKenna, CPA
Lois E. Benson, CPA
Gregg A. Gunderson

RESPONSE TO THE AUDITOR GENERAL'S REPORT
by the Alameda County Superintendent of Schools

INTRODUCTION

The Alameda County Superintendent of Schools (ACSS) is in agreement with the financial data and projections of the financial status of the ACSS as presented in the Report by the Office of the Auditor General (Report).

This Response by the ACSS is organized to address the problems identified in the Summary (p. i) and the Conclusions and Recommendations of the Report (pp. 32-36).^{*} The problems have been identified as:

1. "undertaking a countywide program to transport the handicapped even though it (ACSS) did not have adequate funds"
2. "depleting its financial resources to acquire a new building" and
3. "compounding its (ACSSs) problems because"
 - "(a) it failed to follow its annual operating budgets
 - "(b) it understated projected expenditures and
 - "(c) it overstated projected revenues in the 1983-84 budget...."

These problems have left the ACSS in a position of not having sufficient cash in the County Treasury to meet current expenses.

Each of the above areas will be discussed briefly before addressing the Conclusions and Recommendations of the Report. We begin, however, with a description of the cash problem.

RESPONSE

A. Cash Flow Problem

County superintendents of schools (CSS) are placed in a cash flow disadvantage when compared to school districts. The bulk of a CSS's revenue is dedicated to specific operations or projects. CSSs do not have a large "general fund" upon which to draw as do school

^{*}Now pages 33-36.

districts. Traditionally, this disadvantage has been met by CSSs through substantial reserves which could be called upon to cover the cash position. Recent years have seen these reserves dwindle. The ACSS is at a particular disadvantage since a large (40%) of its income is subject to delayed reimbursement of from 60 days to one year. Thus, the ACSS must pay the cost of providing the service, but must wait up to a year to receive reimbursement, and has no reserve funds to cover the cash shortfall. A few examples:

1. The ACSS operates, at a request of the State Department of Education (SDE), 12 projects called the Special Education Resource Network (SERN). The SDE receives Federal funds for SERN which are not received by the ACSS until December or January, but the ACSS incurs costs from July.
2. Handicapped transportation. In 1983-84, over 75% of the funds used by the ACSS to pay the cost of transporting handicapped pupils are not received by the ACSS until a year after the expense is incurred.
3. Special State and Federal projects operated by the ACSS withhold 20% of the reimbursement for several months after all the expenses have been paid.

B. Transportation of Handicapped

Although contract documents between ACSS and the school districts and bus contractors show that formal action was not taken (in many cases) until after the ACSS knew that its funds for 1981-82 had been reduced by AB 777 in June of 1981, the ACSS, the school districts, and the bus contractors were committed to the countywide transportation program long before AB 777 was signed. By July 1, 1981, districts had laid off or transferred bus drivers who had previously transported

their handicapped, ACSS had bid or negotiated contracts with bus contractors, bus contractors had obligated themselves to purchase additional busses, the ACSS had employed a staff to manage the transportation system, and data on pupil transportation needs was being collected. Districts were in the final stage of adopting their 1981-82 budgets based upon the ACSS operating the transportation system.

It was not feasible, given these conditions, for the ACSS to fail to proceed with the handicapped transportation program in September of 1981.

C. New Building

The decision to lease-purchase an office building for the ACSS was made in 1980. The ACSS, at that time, was housed in three locations in the County - two rented facilities, for which rental costs were increasing at over 10% per year, and in a 30-year old elementary school which was deteriorating rapidly and was functionally inefficient. Projections of housing costs for the ACSS clearly showed the long range advantages of lease-purchasing a facility to house the centralized services of the ACSS.

D. Budget Projections and Expenditure Controls

1. A budget is a spending plan containing expected revenues and expenses adopted in early August, annually, for the current fiscal year. Projected revenues and expenses are subject to change throughout the year as, for example, deficits are applied by funding sources and suppliers of goods and services change their prices. We agree, however, that the projected revenues and expenses in the 1983-84 budget of the ACSS were unusually inaccurate.

2. Underestimation of projected expenditures in 1983-84. It is true that expenses for 1983-84 were underestimated.
3. Overstatement of projected revenues in 1983-84. It is true that projected revenues for 1983-84 were overestimated.

E. Response to Auditor General's Recommendations

We agree with all the recommendations in the Report and have taken, or will take, the following actions to adopt them.

1. Handicapped transportation. We agree that by April 1, 1984 the school districts now served must agree to underwrite the repayment of the State loan through 1988-89. Failing such agreement, the ACSS will cease providing handicapped transportation on and after July 1, 1984 and will use the \$5.7 million reimbursement to be received in 1984-85 to repay the State loan. If certain districts elect to use the service and others do not, a decision will be made by April 1, 1984 whether to continue the service. In any event, loan repayment will be assured by April 1, 1984.
2. We agree to establish in the ACSS's Office a line item expenditure control system which will insure that no object of expense will exceed the budgeted amount. (The present expenditure control system is applicable at the program level, only.)
3. Any revisions in the objects of expense will be formally documented.
4. We agree to prepare and submit detailed budgets, on both a cash and accrual basis, to the SDE by April 1, 1984 and April 1 each year thereafter until the loan is repaid.

The April 1 budgets will be revised, as appropriate, to reflect the budget adopted by the County Board of Education. The adopted budgets will be revised and submitted to the SDE on a current basis (monthly, as appropriate) during each fiscal year as changes

in income, both increases and decreases, are realized. Revisions will be included only after approval by the SDE, as prescribed on p. 34 of the Auditor's Report. *

The cash budget will be formulated upon expectation of realization of an advance of 85% of anticipated revenue from the Board of Supervisors, effective July 1 of each of the five fiscal years, pursuant to Section 42620 of the Education Code.

5. We agree to submit a plan of operating reductions used in developing the 1984-85 budget.

At the time of submittal of the 1984-85 budget, a detailed list of reductions of expense and increase (if any) of income that clearly supports the budget will be submitted.

6. We agree to provide monthly reports to the SDE and not deviate from the budget without prior consent of the SDE.

Monthly line item reports of income and expense (showing adopted budgets, revised budgets, encumbrance, expense, and balance) in accordance with objects of expense as established in accordance with the J-73 will be forwarded to the SDE no later than the fifth working day of each month.

A summary report will be provided to the County Board of Education, County Auditor, and County Treasurer.

7. We agree to provide evidence of a repayment plan.

Compliance with this recommendation has been discussed at length in E.1. (p. 40) of this Response, above. **

8. We agree to submit an analysis of the benefits of a countywide program of transporting the handicapped pupils, adhering to Education Code Section 56775, and to submit this to the SDE prior to April 1, 1984.

*Now page 35.

**Now page 42.

METHODOLOGY USED IN PREPARING THE ACSS CASH FLOW PROJECTION

In preparing the cash flow projection for January to June 1984, we made the following material assumptions.

1. The ACSS will collect from school districts \$750,000 in January and \$750,000 in June; these amounts represent school districts' reimbursement of anticipated underfunding by the State for the 1982-83 special education transportation program.
2. In April, the ACSS will receive a "transfer in" of \$332,725 for residual moneys in the Construction Fund of the Public Facilities Corporation.
3. In June, the ACSS will receive a reimbursement of \$268,000 from Russell Transportation, Inc., for reduced charges associated with a special education transportation contract.
4. ACSS personnel have identified the probable timing of certain revenues and expenditures, and the cash flow projection relies upon their judgment. Other revenues and expenditures are allocated evenly throughout the period.

5. The basis for the monthly retirement of the advance is a separate cash flow projection prepared by the ACSS in 1983. The final payment occurs in April 1984, as required by the Alameda County Treasurer.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps